# Impact of the COVID-19 pandemic on micro, small, and medium enterprises (MSMEs)

Kenya report (Round 3)

December, 2020

SCBF

SWISS CAPACITY BUILDING FACILITY
Innovating Financial Inclusion

MSC
MicroSave Consulting

# MSMEs during COVID-19

## Round 3 report


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# Kenya report

This report provides a detailed country-level view of the impact of COVID-19 on micro, small, and medium enterprises (MSMEs)* and their coping strategies. It also provides recommendations for policymakers and financial service providers to support them.



*Our study primarily focuses on the micro and small enterprises in Kenya. The research findings may not be entirely valid for medium enterprises.

# About this report

- This report presents insights and recommendations from the third round of research on the impact of the COVID-19 pandemic on MSMEs in Kenya. We have also documented changes since the last survey in September, 2020.
- The research assessed the economic impact of COVID-19 on enterprises in Kenya. The objective was to develop a better understanding of the extent of the impact and identify areas that require short, medium, and long-term support. The specific objectives of the research were as follows:
  - Assess and quantify the impact of the COVID-19 pandemic on entrepreneurs as well as their families and businesses;
  - Assess the gender implications for businesses as well as households;
  - Assess the impact of COVID-19 on the enterprises with regard to revenues and costs (including input costs), supply chains, business activities and product ranges, and liquidity management;
  - Inform policy and regulatory changes to support subsequent efforts to help rebuild the enterprise segment;
  - Assess the effectiveness of different business support communication channels, if any, and use them to reach out to enterprises;
  - Understand the role of entrepreneur networks and the impact of the pandemic on them;
  - Gather ideas for additional support services and recovery efforts after the crisis.
- In round 3, we conducted a quantitative survey with 62 MSMEs and qualitative interviews with 21 MSMEs across Kenya to assess their perspective on the effects of COVID-19. We have synthesized the findings to provide recommendations and opportunities for policymakers and financial service providers to strengthen their efforts to support MSMEs. Please see Annex 3 for the sample characteristics.

**Sponsor of the study**

SCBF and MSC co-funded this joint research proposed by MSC to understand the impact of the COVID-19 pandemic on the needs, attitudes, perceptions, and behavior of micro and small enterprises in Kenya

At the time of data collection in December, 2020, the Government of Kenya maintained a nationwide curfew between 10:00 p.m. and 4:00 a.m. The government has further extended the curfew until 12 March, 2021. After more than nine months of closure, all schools in Kenya were fully reopened from 4th January, 2021.

# Recommendations

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# As MSMEs adapt to the changing business environment, they need external support to revive businesses and build resilience

## Measures to support the income of MSMEs

### Key insights

- More than three-fourths of the surveyed MSMEs are yet to return to normal pre-COVID-19 operations, owing to various factors, such as reduced hours of operation, unavailability of stock, and suppressed demand. With schools fully reopened in January, 2021, the education sector, which is the last to reopen, will now join the efforts for economic recovery. The losses in the education sector are estimated to reduce the GDP by 1.7% in the first half of 2020, as compared to its positive contribution of 0.4% in the first half of 2019.
- With some improvement in customer footfall and demand, MSME owners hope to bounce back. However, some issues continue to plague the recovery of enterprises. These include, on average, a one-third reduction in household income due to job losses in the family, the need to support dependent family members, and low revenue from the business. As per the estimates of the World Bank, the COVID-19 crisis has pushed around 2 million Kenyans into poverty.

### Recommendations

01 MSMEs, especially women-owned enterprises, need comprehensive support on capacity-building and financial and market linkages to adapt to the changing economic situation and market demand. BOMA's poverty graduation program supports women entrepreneurs in Northern Kenya to successfully navigate the challenges posed by the pandemic. The government and donor agencies should set up similar programs to aid the recovery of women-owned enterprises, particularly women-owned micro-enterprises.

02 The government may continue with the social protection programs that provide a safety net to vulnerable households who suffered job and income losses. One-third of the workers employed in enterprises face pandemic-induced risks. Targeted support to this segment during the pandemic may help them survive the crisis.

## Measures to reduce the burden of expenses

### Key insights

- The Government of Kenya passed the Tax Laws (Amendment) No. 2 Act of 2020 that withdraws the tax relief measures extended during the onset of COVID-19 in April, 2020. With the new act, the government has reinstated the Value Added Tax (VAT) of 16% and corporate income tax of 30%. It has also introduced a 1% minimum tax on gross turnover. As MSMEs continue to struggle with low profitability, the suspension of tax relief measures means that they need to prepare to pay taxes.
- Financing costs emerged as the prime financial concern of entrepreneurs. Entrepreneurs have struggled to manage the repayment of old loans even as they try to secure new loans to meet business liquidity and remain afloat. Moreover, as suppliers demand cash payment at the point of purchase, MSMEs find it hard to manage cash flows and liquidity.

### Recommendations

01 As the government removes the tax relief measures, it should formulate forward-looking policies and programs to revive firms in the sectors that can help generate employment and stimulate micro and small enterprises. For example, the government allocated KES 1.5 billion (USD 15 million) to help horticultural and flower producers retain access to international markets. The horticultural and flower exports between January and October, 2020 rose 8.6% to KES 126 billion (USD 1,200 million) as demand increased in Europe.

02 Donors may support local financial service providers with concessionary financing facilities to fund businesses and provide technical assistance to manage their portfolios. Such an approach will enable financial service providers to address liquidity concerns and facilitate business continuity. For example, AfDB's Africa SME Program provides financial support to medium and small-sized (Tier 2 and Tier 3) financial institutions to increase their on-lending capacity, on competitive terms. It also seeks to enhance access to finance for SMEs through local financial institutions. The program provides medium to longer-term standardized lines of credit and technical assistance to targeted financial institutions in low-income countries in Africa.

# Effective implementation of government measures complemented with donor support is critical to the recovery of MSMEs

## Measures to boost access to finance

### Key insights

- MSMEs are severely strained due to low revenues, erosion of savings, and a lack of supplier credit. Entrepreneurs struggle to find reliable sources of credit for working capital. The World Bank notes that local enterprises have limited access to cash and credit for business.
- In December, 2020, the Government of Kenya launched the credit guarantee scheme (CGS), which allocated an initial amount of KES 3 billion (USD 30 million) as seed capital. The government plans to increase it to KES 10 billion (USD 100 million) in the medium term. To effectively meet the needs of the MSME sector, the government must refine CGS to enhance its communication, implementation, and scale-up.
- Most larger enterprises have accessed public- and private-sector assistance to mitigate the impact of the pandemic. However, relatively fewer smaller enterprises have benefitted from this support due to a lack of awareness and inability to access relevant information.

### Recommendations

01 Donors may provide technical assistance to banks that participate in the credit guarantee scheme (CGS) to better appraise MSMEs. The government, in collaboration with other stakeholders, should conduct a campaign to raise awareness among enterprises about CGS and how they can benefit from the initiative.

02 Donors and other stakeholders may support digital financial services (DFS) providers to design and deliver suitable products and services to the MSMEs. DFS can play a significant role in addressing the financing needs of MSMEs effectively through the simplification of processes and better assessment of credit-worthiness using alternative data.

03 Donors may support financial literacy and business development programs for MSMEs to understand business cycles and plan for contingencies by diversifying investments and revitalizing savings behaviors.

## Measures to formalize informal enterprises

### Key insights

- MSMEs in the informal sector are worst affected by the impact of COVID-19. As per a report of the World Bank, one-third of household-run enterprises are non-operational. The report also notes that LMI households experienced a considerable drop in household income due to job losses and reduction in remittances.
- The informal sector contributes to more than 80% of the employment in Kenya. With several informal enterprises shut down, unemployment has risen in the country. The unemployment rate in Kenya increased from 5.2% in March, 2020 to 10.4% in September, 2020.
- Women own more than 60% of informal enterprises. Women-owned informal enterprises are more susceptible to the economic impact of the pandemic. Moreover, female workers face a higher risk of reduced working hours and wages as they remain largely dependent on employment in the informal sector.

### Recommendations

01 In addition to direct support to informal enterprises, the government should ensure that measures like CGS target enterprises in sectors with the potential to spur demand for products and services offered by informal enterprises. For instance, support to wholesale and retail trade and the transportation sector can stimulate business for two-thirds of unlicensed micro-enterprises.

02 Only 31% of the enterprises surveyed have used the e-commerce platform of other digital portals to boost their businesses. Government and private agencies can work together to increase their digital capabilities and enhance the uptake of digital technologies among MSMEs.

03 The government, donor agencies, and private foundations should supplement ongoing initiatives to support women entrepreneurs, such as the Women Enterprise Fund (WEF), a semi-autonomous agency that provides women entrepreneurs with low-interest loans. WEF issued loans worth KES 392 million (USD 3.9 million) to 1,551 groups across the country and granted moratorium and rescheduling on loans to support women entrepreneurs. KWFT, through its Biashara Loans, provides credit services at the doorstep to women entrepreneurs.

# Impact of COVID-19 on MSMEs

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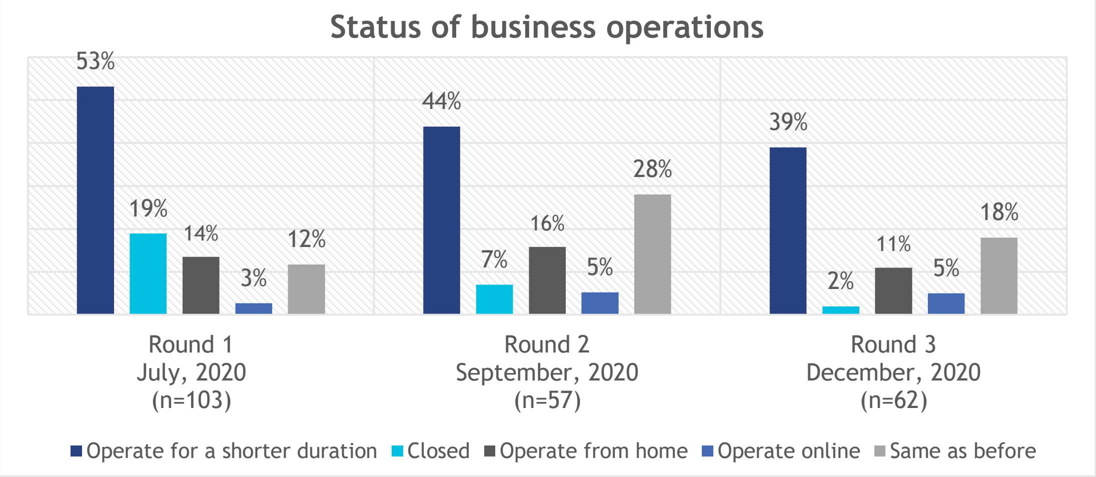
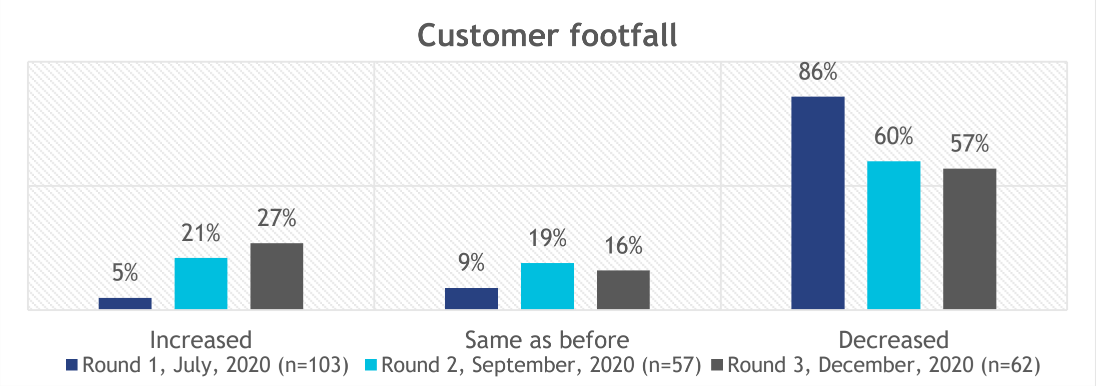
# Businesses have been recovering slowly, with a marginal increase in customer footfall and a consequent increase in sales

Though businesses are on the path of recovery, 39% of enterprises still operate for fewer hours in December, 2020, as compared to the pre-COVID-19 situation




Businesses witnessed a gradual increase in the number of customers. 57% of enterprises surveyed in December, 2020 reported reduced customer footfall, compared to 60% of enterprises surveyed in September and 86% in July




## Though the business conditions have improved for a few enterprises, most still await a positive change

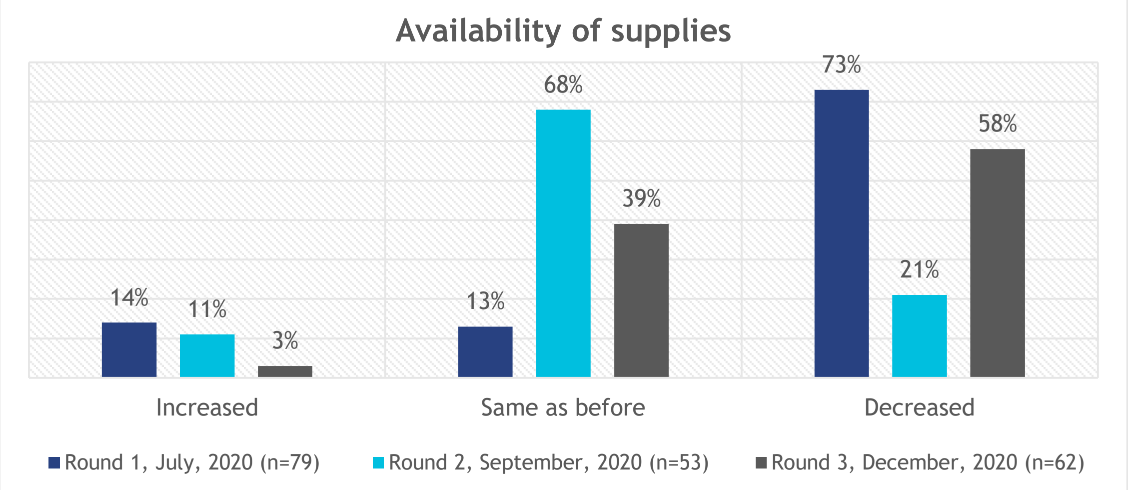
- Signs of recovery are evident among MSMEs. 39% of enterprises reported operating for fewer hours after the pandemic struck. Only 18% of respondents noted that their business conditions remain unchanged. However, most enterprises are yet to return to normal operations.
- Entrepreneurs reported a marginal increase in customer footfall from September, 2020. With an average decline of around 19%, customer footfall is yet to return to pre-COVID levels. Moreover, demand has improved slightly. Compared to the average volume of sales per customer before the COVID-19 outbreak in Kenya, the volume reduced by an average of 23% in December, against 51% in September, 2020.
- The festive season boosted demand and brought relief to accommodation and food services sectors, which were among the most affected sectors. However, schools remained closed until December, 2020.
- The education sector experienced a 25.7% reduction in output. Hence, it remains one of the worst affected subsectors among the service sectors. It will take some time for the education sector to bounce back as schools were the last to open amid COVID-19.

"Previously, sales were low during the curfew, which started at 7:00 pm. They have increased because I can now operate until 10:00 p.m."
– A pharmacy owner from Emali

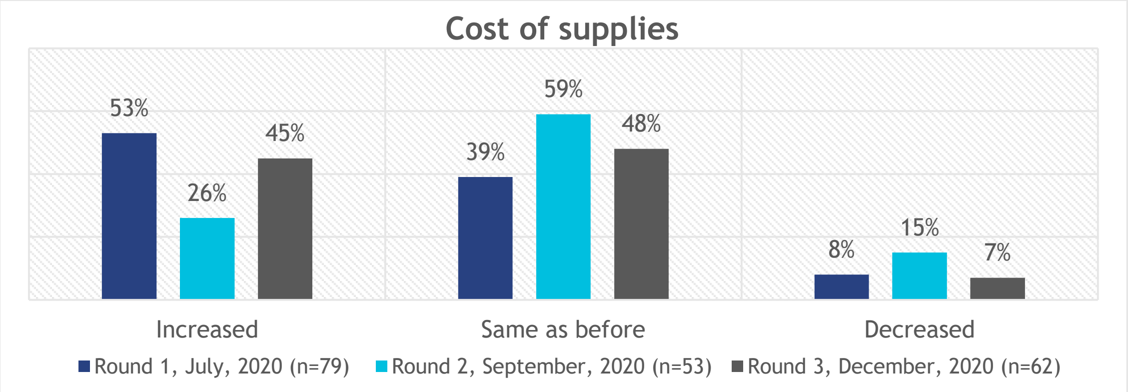
* The sample size is, clearly, too small to be representative. Therefore, the percentages throughout this report are only indicative.

# Though local supplies have improved, MSMEs that depend on imports have to wait longer for the delivery of goods

39% of the enterprises surveyed in December, 2020 reported the same level of supplies as before COVID-19, compared to 68% of enterprises surveyed in September and 13% in July.




48% of the enterprises surveyed in December, 2020 reported the same cost of supplies as before COVID-19, compared to the 59% of enterprises surveyed in September and 39% in July.




## Sales of essential goods have picked up but customers still hesitate to buy non-essentials goods

- The pandemic affected MSMEs in different ways. Enterprises that offer essential services continued to operate as usual. Those that offer non-essential services lost opportunities as customer footfall and demand declined, which resulted in reduced income and profits.
- Some supply chains took a severe hit due to the pandemic. Enterprises that depend on imported goods, such as furniture and fittings sold by hardware stores, spare parts for motor vehicles, and second-hand clothing could not obtain new stock due to the restrictions imposed. More women-owned enterprises (60%) than men-owned enterprises (57%) reported lower supplies. These businesses need time to revive or diversify their sources of income to manage their expenses.
- 60% of women reported an increase in the cost of supplies, compared to 35% of men. Women entrepreneurs reported an average increase of 13% in the cost of supplies, compared to 5% of men. This difference in the average increase in the cost of supplies indicates that women entrepreneurs are more vulnerable to fluctuations in availability and price of goods in the supply chains.
- The level of supplies saw a temporary improvement in the second round of the study. However, in the third round, more entrepreneurs reported a decline in the availability of supplies due to 1) consumption and demand during the festive season , 2) hoarding by retailers, and 3) disruptions in the global supply chain, which continue to be a problem.

"The prices of supplies have increased as imports from India, Korea, and Turkey have stopped. The supply is not sufficient to meet the demand. However, some people who had stock benefitted from the demand-supply gap." – An entrepreneur from Nairobi

"I had borrowed to develop rental units. However, I decided to finance my wife's grocery business due to the high demand of food and groceries." - A trader from Thome

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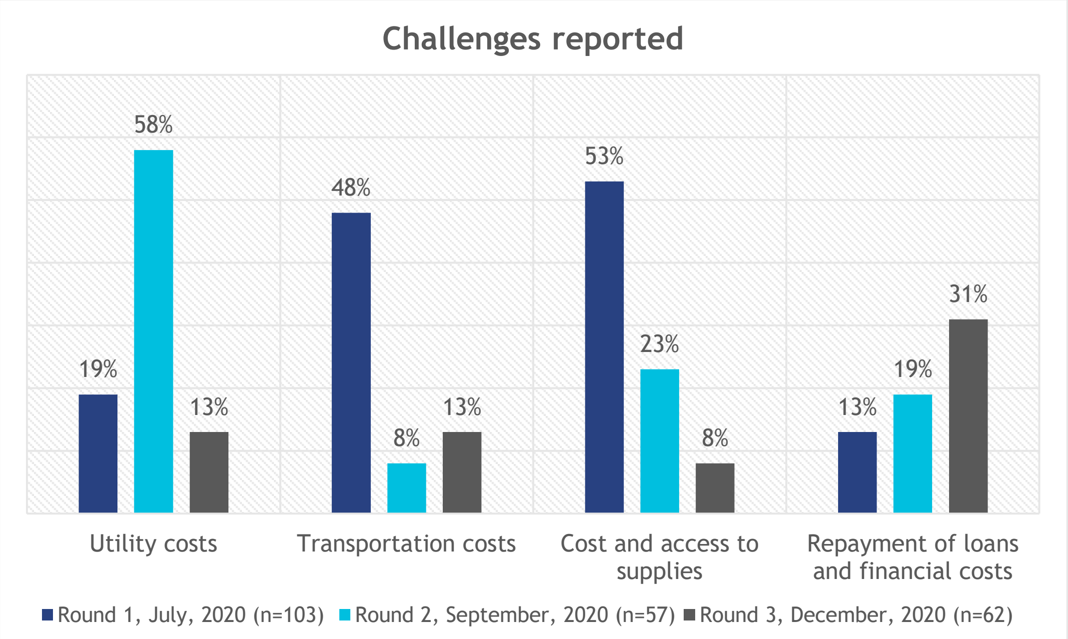
# Despite gradual improvements in supplies and transport facilities, repayment of loans has emerged as the biggest challenge for MSMEs

The most common challenge of entrepreneurs in December, 2020 was the repayment of loans (31%) whereas, in September, the payment of utilities (58%) and costs of transport (48%) were the key challenges for enterprises




## Entrepreneurs are stressed due to loan repayments and it will take another 3-6 months for them to overcome these challenges

- The cost of utilities, transportation, and supplies have gradually become more manageable for enterprises as customer footfall increases and revenue improves.
- As all other expenses gradually stabilize, the repayment of loans has emerged as the biggest challenge for the entrepreneurs. Entrepreneurs struggle to repay new loans they took during the pandemic, to pay penalties on old loans due to delays in installments, or both. Some entrepreneurs mentioned an increase in interest payments as a result of an extension of the repayment terms of their loans, which is an extra burden in these tough times. Financial service providers are also reluctant to offer discounted interest rates as the pandemic has had a devastating impact on their cash flows.
- 93% of respondents reported that the rent for their business premises remains the same. However, it constitutes a significant proportion of recurring business costs and is now a major concern for 23% of the entrepreneurs.

"I borrowed KES 200,000 (USD 2,000) in August, 2020. I was asked to repay my current loan in 12 months instead of my preferred 24 months. Even though I repaid my previous loan of KES 150,000 (USD 1,500) in full during the pandemic, I accepted these terms since I needed the money."
– A gas welder from Githunguri, Kiambu

"I had an outstanding loan, which I have now paid off. However, I could only repay the loan in November, though it was due in July. Instead of providing support, the bank added a penalty for default on the outstanding loan. *- A female entrepreneur from Kisumu*

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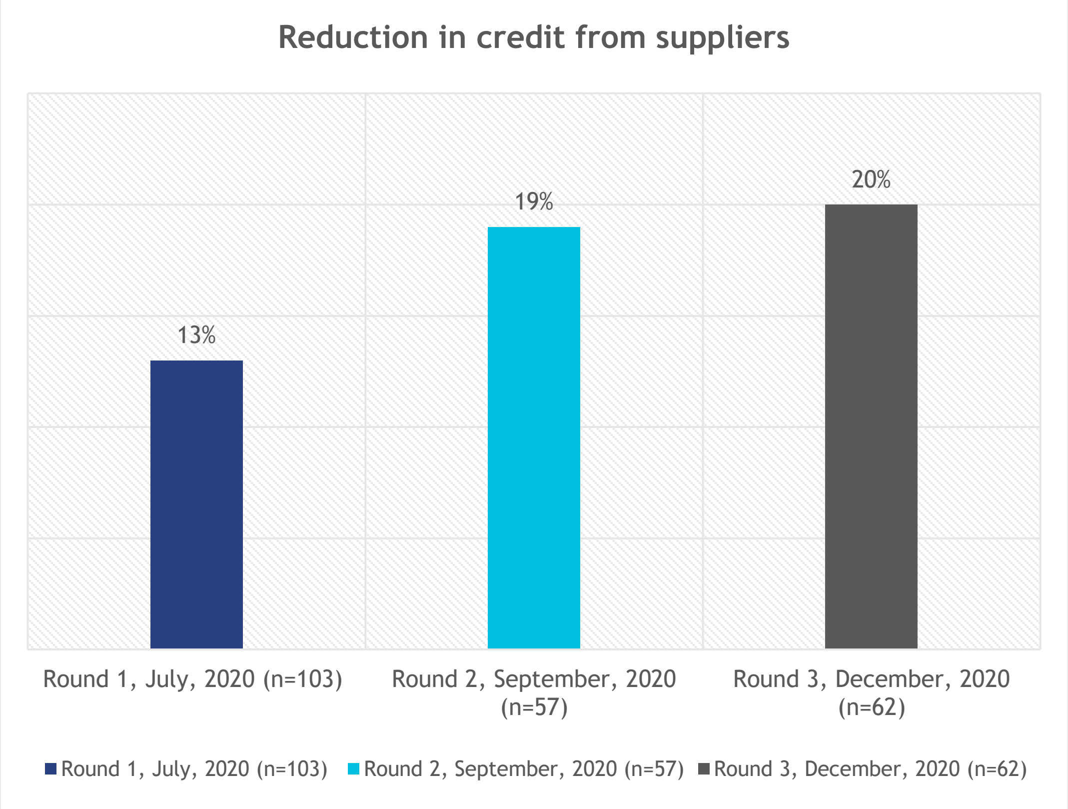
# Entrepreneurs continue to face limited availability of credit from suppliers, who also struggle with challenges in liquidity, lower sales, and defaults

20% of the enterprises surveyed in December, 2020 reported reduced credit from suppliers, compared to 19% of the enterprises surveyed in September and 17% in July




## Supply chains remain starved of credit from suppliers, which leads to severe financial constraint in the sector

- A rising proportion of enterprises (20%) reported reduced availability of credit from suppliers from July to December, 2020. As suppliers in the value chain also face a liquidity crunch due to limited funding from financial institutions, a decline in sales, and an increase in expenses, they have reduced sales on credit.
- In December, 20% of enterprises reported that they could only secure supplies with an upfront cash payment, which amplified their liquidity issues. An additional 9% of the respondents noted that suppliers offered less credit compared to the pre-COVID-19 period.
- Moreover, some enterprises have defaulted on payments to suppliers, which has reduced the ability of suppliers to offer goods on credit to other entrepreneurs. Thus, most entrepreneurs are now forced to make only cash sales to preserve their liquidity and pay suppliers.

"Though the cost of supply and delivery mechanisms from suppliers remained the same, the purchase of goods on credit from suppliers became difficult. Now I have to pay upfront cash for the supplies, which I earlier used to get on credit." – A female trader from Naivasha

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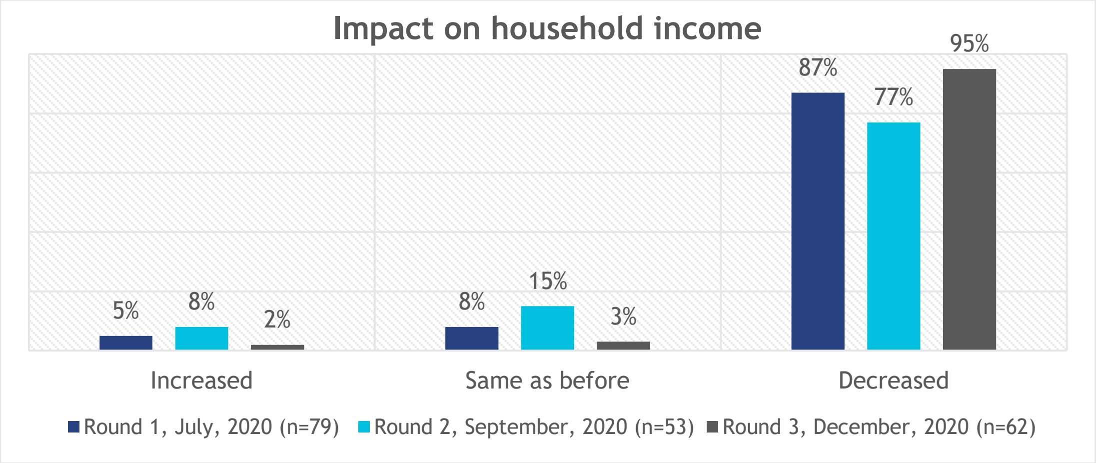
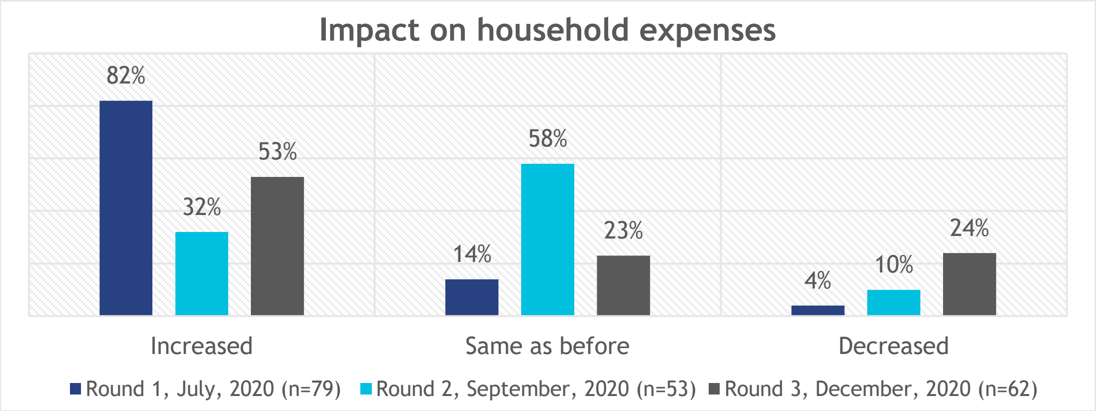
# A decline in household income and increased household expenses have left MSMEs struggling to balance their books

95% of enterprises surveyed in December, 2020 reported a decline in household income, compared to 77% of enterprises surveyed in September and 87% in July




53% of enterprises surveyed in December, 2020 reported an increase in household expenses, compared to 32% of enterprises surveyed in September and 82% in July

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## Increased household expenses and decreased household incomes have upended the life of entrepreneurs

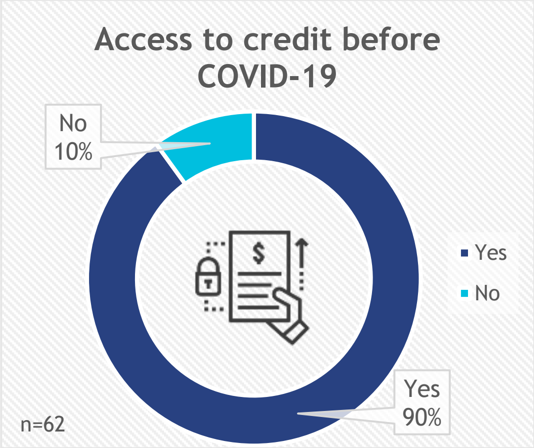
- 95% of the entrepreneurs experienced a decline in household income. The average decline in household income is about 36%.
- Reduced sales coupled with loss of jobs or pay cuts of family members continue to affect household income. Reports indicate that more than 1.7 million workers lost their jobs while many others suffered from a reduction in wages.
- 17% of entrepreneurs borrowed to meet the household expenses. Around 65% of the respondents borrowed from banks (18%), digital lenders (5%), and microfinance institutions (42%).
- Entrepreneurs who reported an increase in household expenses jumped from 32% to 53%. Both in rural and urban areas, the household expenditure increased because children stayed at home during the pandemic and relatives who lost their jobs needed support.

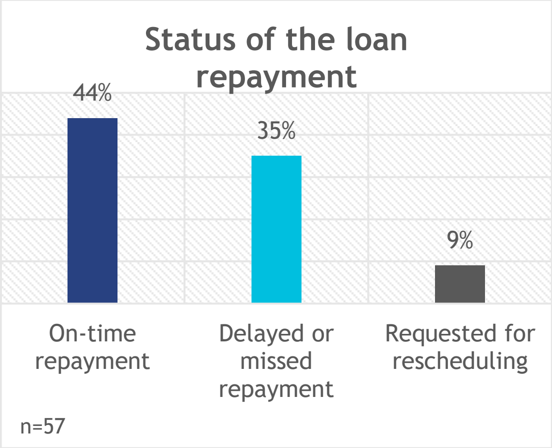
"All family members came home during the pandemic as they lost their contracts and sources of income. I have now taken up a job to cope with the situation." – A grocer from Kisumu town

"Before the pandemic, my average income was KES 40,000 (USD 400). It has now declined to KES 25,000 (USD 250), whereas my household expenses have increased during the COVID-19 pandemic. I have adjusted my lifestyle. I now prioritize only essential expenses and restrict our family meals menu to cope with the situation."
– A male trader from Meru town

# Loan repayment, the burden of penalties on delayed loan payments, and other recurring expenses have made the MSMEs even more vulnerable

90% of enterprises surveyed in December, 2020 reported having access to a credit facility before COVID-19

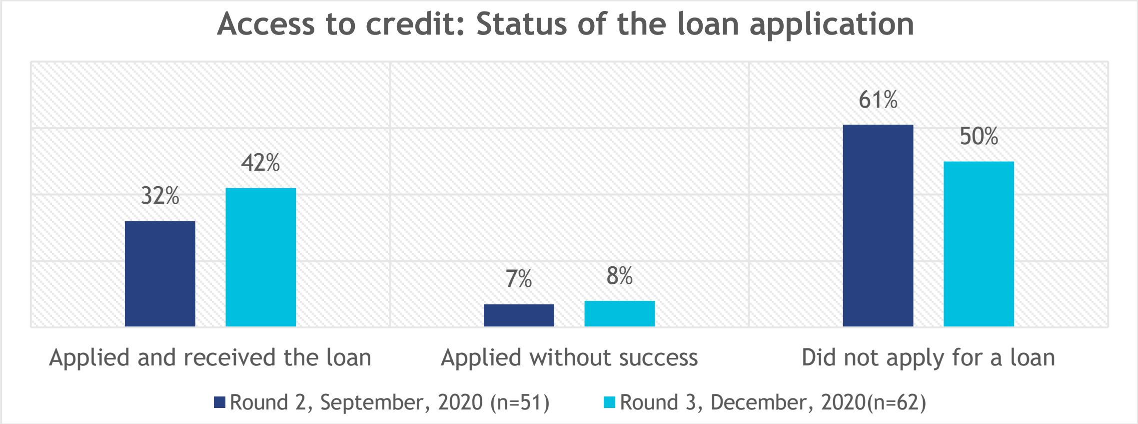



## In a bid to rebuild and revive their businesses, entrepreneurs face several issues that test their resilience and make them vulnerable

- As business operations resume, entrepreneurs have started to repay their loans. Yet, 35% of the respondents still missed or delayed a loan repayment, as compared to 52% in September, 2020.
- More MSMEs need credit to continue business operations. In December, 2020, 50% of the respondents reported that they applied for a loan, compared to 39% of MSMEs in September, 2020. However, several MSMEs continue to face issues in access to credit because of previous overdue loans and their inability to meet the collateral requirements. Thus, entrepreneurs struggle to secure sufficient liquidity needed to revive their businesses.

42% of enterprises surveyed in December, 2020 reported applying for a loan successfully during COVID-19, as compared to 32% of enterprises surveyed in September




> "The pandemic brought our savings and loan group meetings to a standstill. This affected loan repayment and reduced the cash flows of our revolving fund. I could not get a loan from my group. As a result, I defaulted on the loan I received from a formal financial service provider." - A female trader from Naivasha

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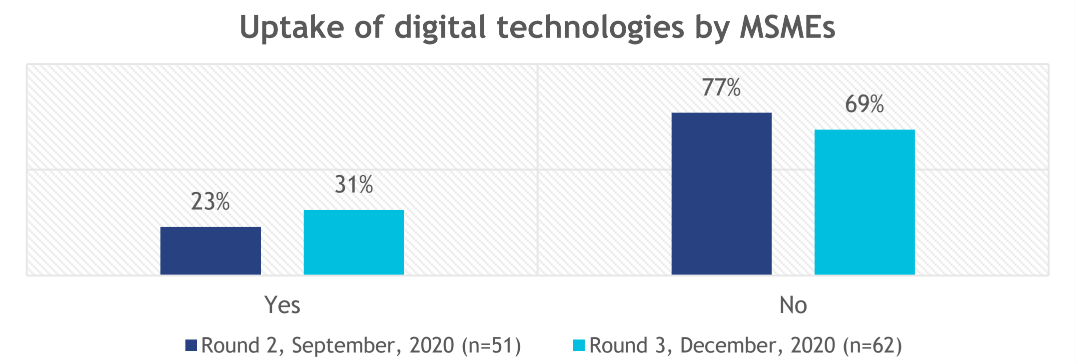
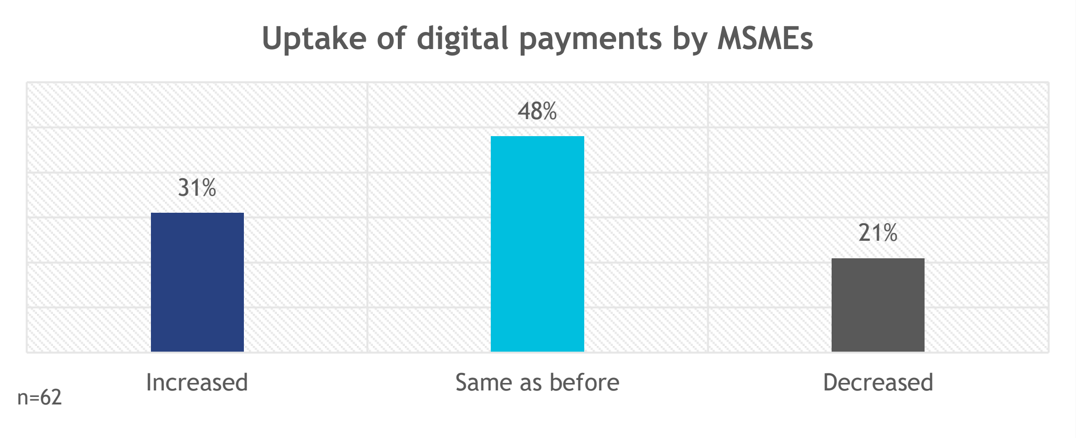
# The uptake of digital technologies has increased marginally as enterprises struggle to utilize all possible opportunities to boost their businesses

Partnerships with e-commerce platforms or the launch of an online portal or social media channel is a rising trend. In September, 2020, 23% of the respondents established such partnerships and the numbers increased to 31% in December




Almost a third of the respondents have increased the use of digital payments




## MSMEs need support to adopt digital technologies along with assistance to cater to the costs associated with their digital transition

- 31% of the surveyed enterprises have embraced digital payments. Most traders accepted digital payments before the pandemic. However, the waiver of transaction fee on mobile money transactions of up to KES 1,000 (USD10) has increased the usage of digital financial services significantly.
- As per the Central Bank of Kenya, the monthly volume of P2P transactions increased by 87% between February and October, 2020. Over this period, the volume of transactions below KES 1,000 (USD 10) increased by 114%, while 2.8 million additional customers started using mobile money. CBK also observed significant growth in business-related digital transactions.
- Enterprises that reported having an e-commerce model or partnerships to manage the current business situation saw a marginal improvement of 8%. More rural (89%) than urban (62%) MSMEs are yet to onboard any digital channel to boost their business and adapt to the changing business environment.
- The lack of technical knowledge among entrepreneurs and the varying nature of business operations are the main factors that affect the adoption of digital technologies.

"Nowadays, I mostly use M-PESA's bill payment service rather than cash transactions. I do not visit the bank as much I used to do before the pandemic." - A furniture trader from Meru town

"Hardware is not considered an essential service and it is not in the list of basic needs for customers. I did not see the need to adopt technology as customers are focused on their essential needs first."
- A hardware shop owner from Thome, Nairobi

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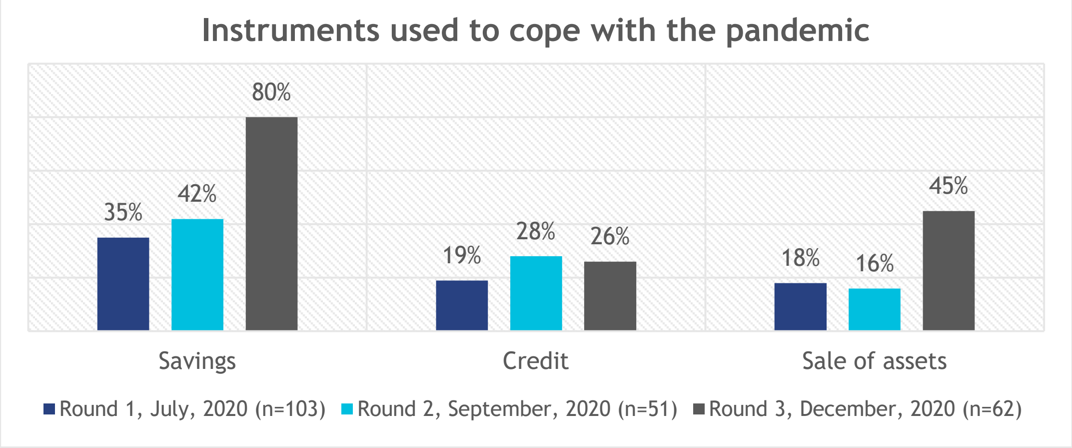
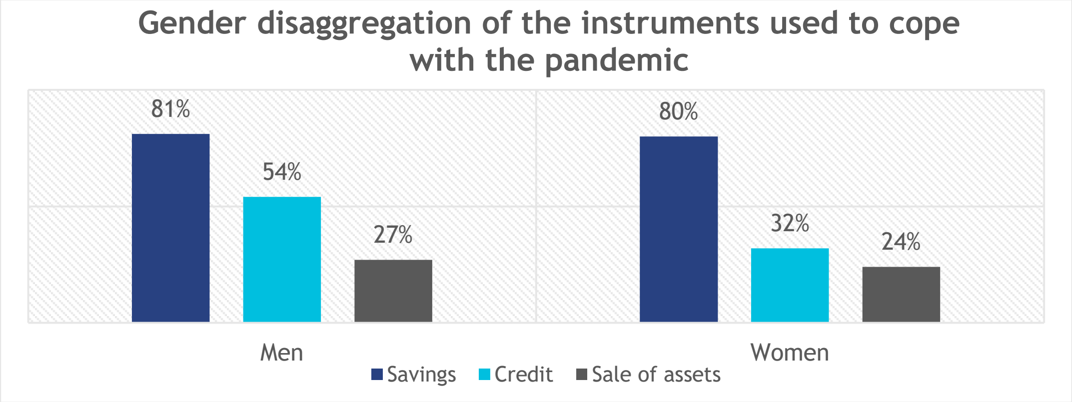
# Coping mechanisms

# MSMEs have depleted their savings and sold assets to mitigate the severe economic impact of the pandemic

Reliance on savings and sale of assets as key coping mechanisms have increased since the first round of the survey conducted in July, 2020




More male than female respondents surveyed in December, 2020 borrowed money to meet household expenses




## Most enterprises were compelled to use their savings to meet household and business expenses

- Due to the continued impact of the pandemic, savings became the last resort for entrepreneurs to meet their household expenses. 80% of entrepreneurs surveyed in December mentioned using savings, compared to 42% in September, 2020.
- 3% of enterprises reported not having any further savings. Moreover, many entrepreneurs either reduced or stopped saving due to reduced incomes.
- Most MSMEs are the clients of microfinance institutions. Savings act as a fund to meet contingencies and as security against loans. Most microfinance institutions use savings to determine a borrower's eligibility to secure loans. As MSMEs deplete their savings, they become more vulnerable and their ability to deal with future shocks decreases due to a lack of contingency funds. Also, MSMEs risk reduced credit limits as their savings balance dip.
- More men than women borrowed and resorted to the sale of assets to meet household expenses. The sale of assets to meet household expenses is more pronounced among rural (33%) and peri-urban (43%) entrepreneurs than their urban (12%) counterparts.

> "The pandemic has destabilized my income. My expenses are generally higher than my income. So I have to use my savings whenever I do not have adequate cash." - A pharmacy owner from Makindu

> "The pandemic has increased my expenses while my income remains unchanged. I have not touched my savings but the amount of weekly savings have reduced." - An electrical services technician from Kisii

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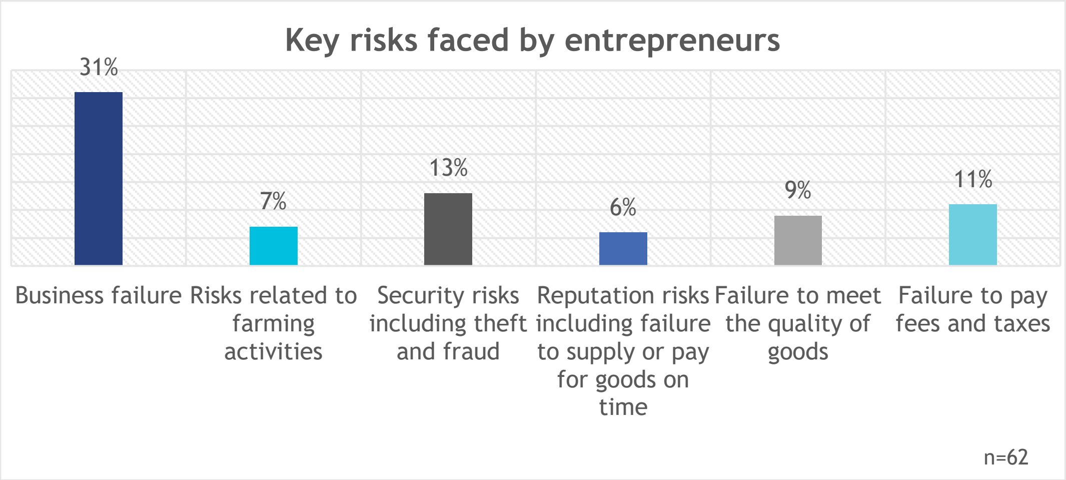
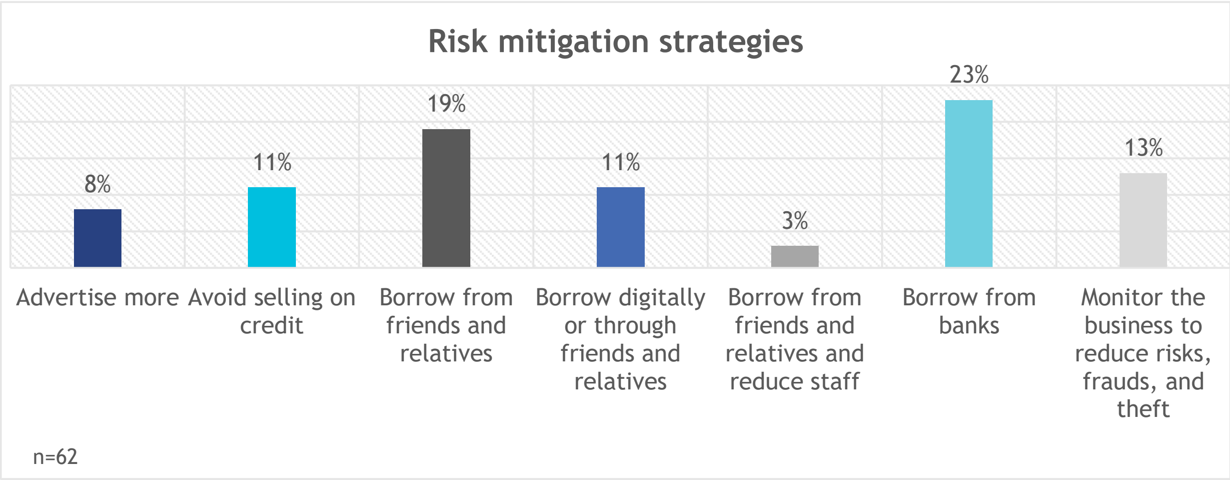
# With the varying business impact of COVID-19 on different sectors and a lack of resilience, MSMEs need external support to recover

Around 31% of enterprises surveyed in December, 2020 reported chances of business failure as the main risk while 13% reported security risks, which include theft and fraud




Almost a quarter of the respondents surveyed in December, 2020 have borrowed from banks to mitigate risks that can affect their businesses




## MSMEs foresee business failure as the biggest risk associated with the pandemic

- With disrupted supply chains and low demand for products, 31% of enterprises anticipate the threat of business failure. The number remains almost the same as compared to September, 2020, when 32% of enterprises feared business failure. Deterioration in access to credit and an uncertain future have further discouraged prospects for investment and innovation.
- 11% of enterprises fear they may default on tax payments, which would ultimately affect the revenue of the country. The government has announced Tax Laws (Amendment) No. 2 Act of 2020, which withdraws the tax relief measures extended to tackle COVID-19 in April, 2020.
- Enterprises have been deploying various strategies to remain afloat. However, 12% of enterprises did not take any steps to reduce risks as they have little access to additional resources and their income has also declined significantly. Some of them have shut down while a few remain optimistic that they will survive the shocks of the pandemic.

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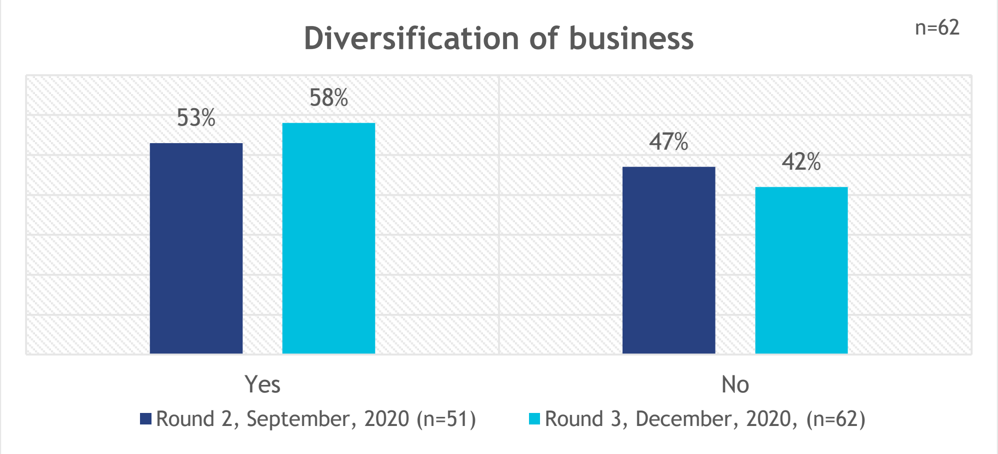
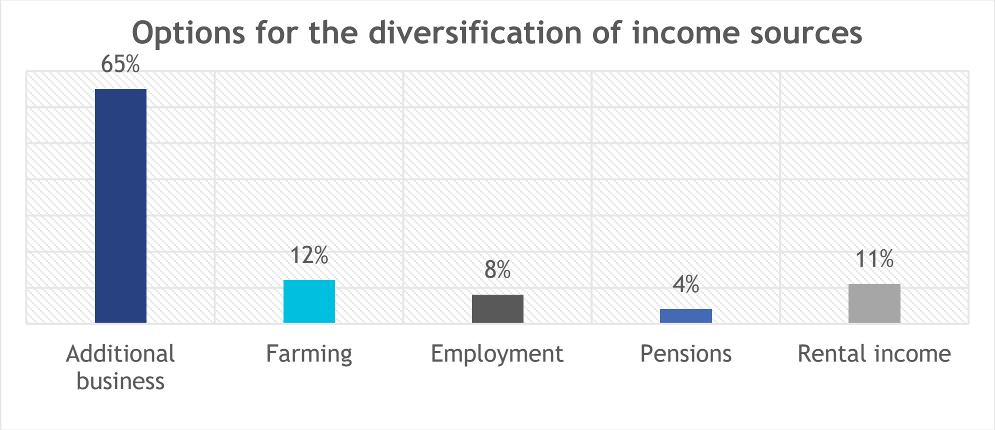
# MSMEs continue to diversify income streams and start new business ventures to boost their businesses and maintain a competitive edge

58% of MSMEs surveyed in December, 2020 rely on diverse income sources besides their main business, as compared to 42% in September, 2020




65% of MSMEs surveyed in December, 2020 reported that they relied on more than one business




## MSMEs have been learning to diversify their income sources to sustain their businesses

- The number of enterprises that diversified their sources of income saw a slight increase. Enterprises continue to learn to adjust to the new normal and reduce their vulnerability to the uncertainties caused by the pandemic.
- The survey also indicated that starting an additional business is the most preferred way to diversify the sources of income. Entrepreneurs have started providing essential goods and services, in high demand during the pandemic, to ensure their incomes increase.

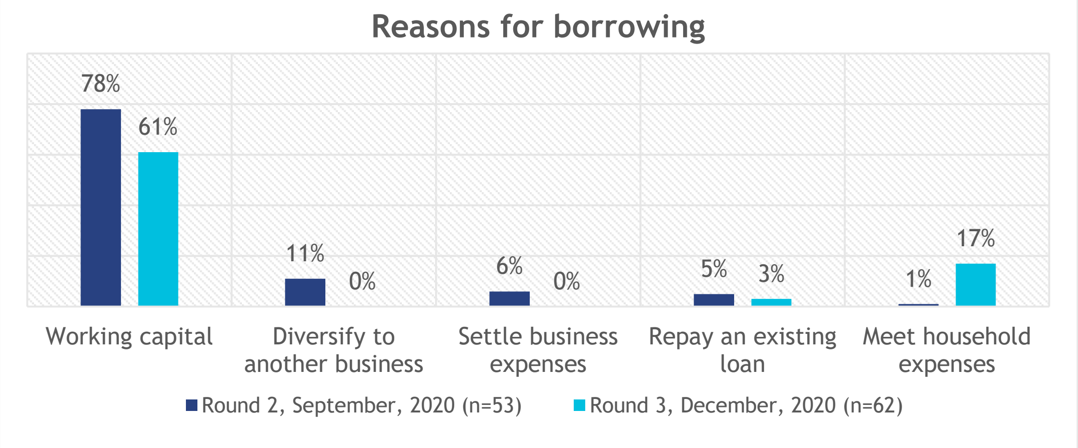
"I rely on my network to manage the situation by reducing the price of my products, especially the price of bread." - A trader from Kavingoni

"Many people discontinued their small-scale construction projects to save money. I work on small contracts to supply these projects. To survive, I diversified and shifted the focus from hardware to my wife's grocery business, which performed well during the pandemic." - A hardware owner from Thome, Nairobi

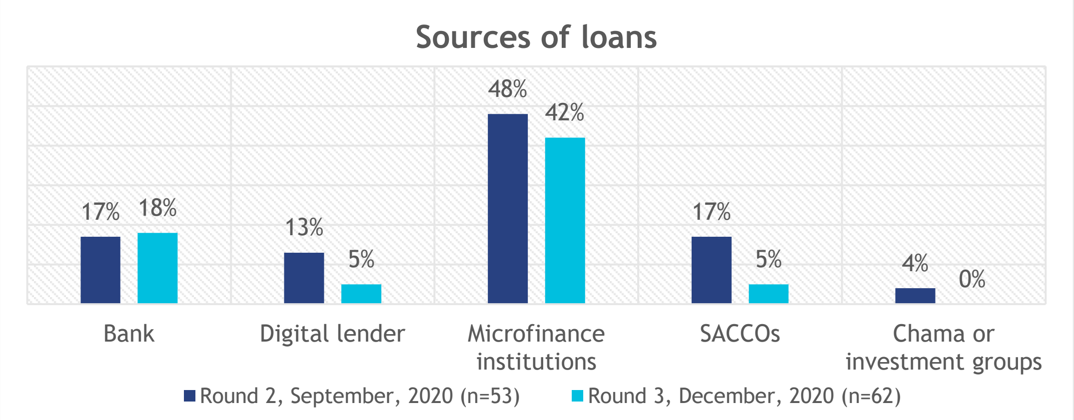
* The sample size is, clearly, too small to be representative. Therefore, the percentages throughout this report are only indicative.

# MSMEs prioritize business continuity while they seek access to credit and use the loan proceeds to infuse funds into their businesses

More than 60% of the respondents who took loans borrowed to meet the working capital requirements of their business




More than half of the respondents surveyed in December, 2020 have borrowed from formal institutions to sustain their business operations




## MSMEs preferred formal financial service providers over informal sources to seek credit to keep the business operational

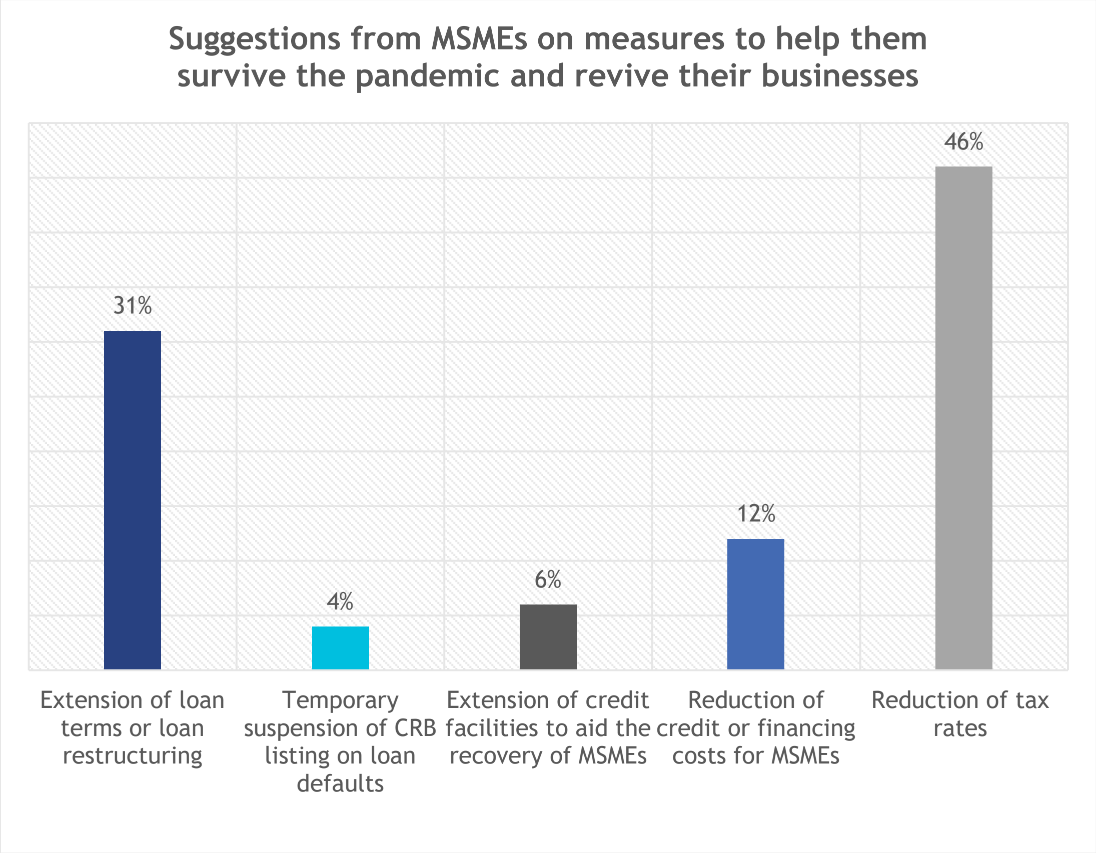
- With the relaxation in restrictions on movement and opening of markets, MSMEs have been trying to secure adequate financial support to restart their businesses and stock goods.
- 50% of enterprises applied for a loan while 42% of them actually managed to get one. Among the entrepreneurs who took loans, 60% reported borrowing from formal financial service providers like banks and microfinance institutions. However, entrepreneurs mentioned that they encountered more stringent terms, such as higher costs of credit and requests for hard collateral.
- Access to credit has been severely limited for most enterprises, with their burden of existing loans, demands for more collateral, and stringent terms and conditions from financial institutions. A few financial service providers have increased their repayment periods for loans but the resultant overall increase in interest payable on longer-term loans often deters MSMEs from seeking extensions.

"I struggled to repay my digital loan during the pandemic. The digital credit provider agreed to extend the period of loan repayment from 12 months to 24 months. However, the interest payable on the loan has increased." - A furniture enterprise owner from Meru

* The sample size is, clearly, too small to be representative. Therefore, the percentages throughout this report are only indicative.

# Prompt and carefully directed government support is crucial for the revival of MSMEs

Almost half of the respondents surveyed in December, 2020 reported the need for lower tax rates for business continuity




## MSMEs expect a reduction in taxes and favorable loan terms from the government

- MSMEs need support from the government and financial service providers to ensure business continuity. The government should adopt different strategies to reduce the vulnerability of most-affected businesses and women-owned enterprises.
- In the survey, only 8% of respondents had received support from the government, mostly as reduction in taxes. The support is yet to reach most enterprises.
- In April, 2020, the government implemented a number of COVID-19 tax relief measures, such as reduced tax rates. The government passed the Tax Laws (Amendment) No. 2 Act of 2020 to end these relief measures from 31st December, 2020. The amendment reinstated a Value Added Tax (VAT) of 16% and corporate income tax of 30%, with effect from 1st January, 2021. As MSMEs continue to struggle with low profitability, a reduction in tax rates is still a high priority for most.
- The cost of loan repayment is a major financial concern for MSMEs. Therefore, MSMEs consider the extension of loan terms without an increase in interest and restructuring of loans as key support areas through which the government and financial service providers can help them navigate financial hardships.

"The government must design a model to ensure that all youth engaged in business can access a youth fund." – An entrepreneur from Muranga

"I would like business support in the form of loans with favorable terms, such as a grace period, lower interest, and longer terms of repayment." - A trader from Bungoma

* The sample size is, clearly, too small to be representative. Therefore, the percentages throughout this report are only indicative.

# Annexes

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# Annex 1: Status of the MSME sector in Kenya

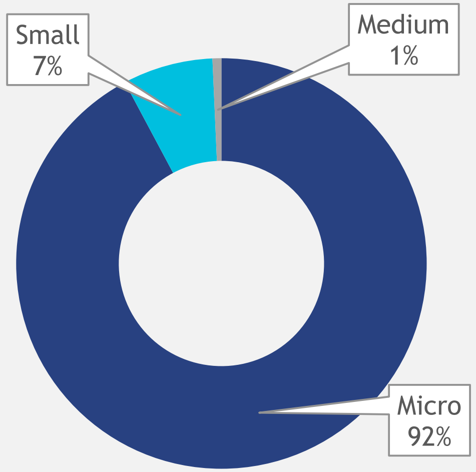
## Definition of MSME

**Micro-enterprise:** Annual turnover under KES 500,000 (USD 5,000); less than 10 employees; investment in plant and machinery or registered capital: i) < KES 10 million (USD 100,000) for manufacturing and ii) < KES 5 million (USD 50,000) for service sector and farming enterprises

**Small enterprise:** Annual turnover of KES 500,000-5 million (USD 5,000 – USD 50,000); 10-49 employees; investment in plant and machinery as well as registered capital: i) KES 10-50 million (USD 100,000-500,000 for manufacturing and ii) KES 5-20 million (USD 50,000-200,000) for service and farming enterprises

**Medium enterprise:** 50-99 employees

## Proportion of MSMEs (licensed)

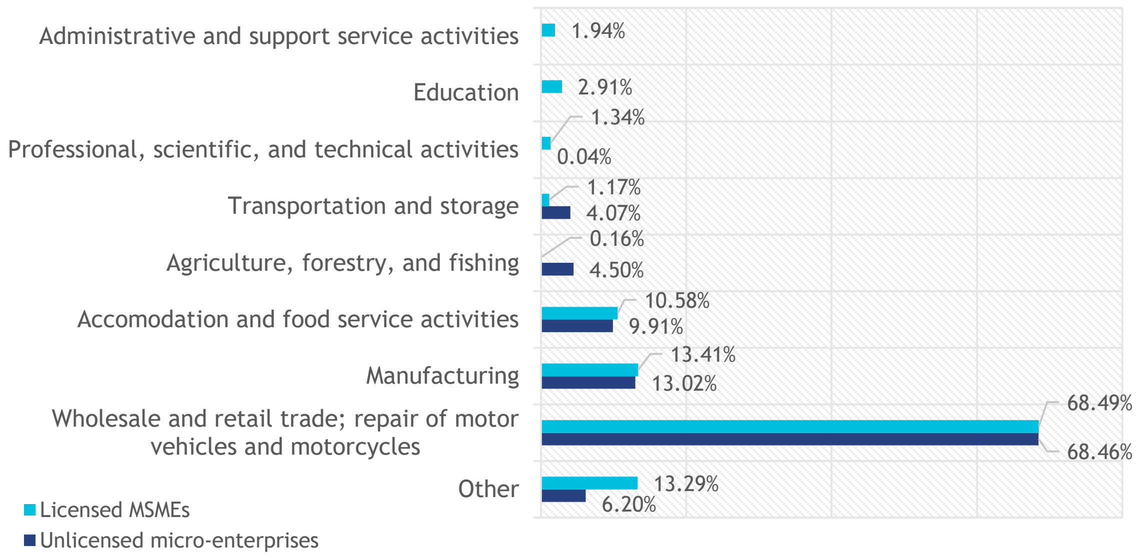



## Number of MSMEs in Kenya

**7.41 million**

1.56 million licensed and 5.85 million unlicensed

## Economic activities of MSMEs in Kenya




## Socio-economic significance of MSMEs in Kenya

**33.8%**
Contribution to GDP

**14.9 million**
People engaged in MSMEs, which accounts for 84% of the country's workforce

**60.7%**
Women-owned unlicensed establishments; against the ownership of 31.4% licensed MSMEs





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# Annex 2: Measures to support MSMEs* (1)

## Government

- SME turnover tax reduced from 3% to 1%; increase in the cap for those liable to pay the levy from KES 5 million to KES 50 million per year (from USD 50,000 to USD 500,000 per year); exemption for small-scale businesses with annual sales of less than KES 500,000 (USD 5,000)
- 100% tax relief for those who earn up to KES 24,000 per month (USD 240)
- Reduction of Personal Income Tax top rate (PAYE) from 30% to 25%
- Reduction of Resident Corporate Income Tax rate from 30% to 25%
- Reduction in VAT from 16% to 14%
- Acceleration of the payments of VAT refunds and pending bills
- Allocation of KES 10 billion to supplement ongoing cash transfers to the elderly, orphans, and other vulnerable members of society
- Allocation of KES 10 billion (USD 100 million) to expedite VAT refunds for all verified claims. The President directed ministries and departments to pay at least KES 13 billion (USD 130 million) of the supplier debt within three weeks of 25th March, 2020. The government announced a similar directive for the private sector

## Regulator and financial service providers

- Flexibility to banks on classification and provisioning for loans that were performing on March 2, 2020 but were restructured due to COVID-19
- Lowering of the central bank rate to 7% and cash reserve ratio to 4.25%
- For six months, suspended the listing of negative credit information of borrowers, whose loan repayments were previously on time but became non-performing from 1st April, 2020
- Loans that fall in arrears from 1st April to 30th Sep will not lead to “blacklisting” of the borrower
- CBK urged banks to provide relief to personal loans for up to one year as personal loans account for 28% of all loans
- Banks were urged to bear the charges for balance inquiry and the cost of restructuring and extending loans to SMEs and corporate borrowers affected by COVID-19
- Payment service providers and commercial banks eliminated charges for transfers between mobile money wallets and bank accounts

## Private sector commitments

- The National Business Compact Coalition, Kenya has donated KES 70 million (USD 700,000). The donation was raised by Reckitt and Benckiser, PZ Cussons, Live Ad, Unilever, Menengai, Copia, Rotary International, Johnson & Johnson, Swiss Development Cooperation (SDC), Twiga, Chandaria, Microsoft, and other brands.
- Safaricom committed funding worth KES 200 million (USD 2 million) to provide food and nutrition.
- Devki Group donated cash worth KES 20 million (USD 200,000) as well as oxygen for hospitals valued at KES 100 million (USD 1 million).
- KCB and The National Treasury, Ecobank Kenya Limited, and Sanlam Investments East Africa Ltd donated KES 150 million (USD 1.5 million), KES 10 million (USD 100,000), and KES 8 million (USD 80,000), to be channeled through the COVID-19 Emergency Response Fund.
- Equity Bank and Mastercard Foundation have set up a fund that contributes KES 300 million (USD 3 million) and KES 500 million (USD 5 million), respectively, to help the youth establish and manage businesses in Kenya.
- Shikilia a collaboration between the Kenyan private sector and non-profit organizations, was established to raise funds to provide emergency cash transfers to low-income households.

An indicative list of the measures taken to provide relief against COVID-19 until May, 2020. The following slides provide details on updates after May.
Source: The Government of Kenya, Central Bank of Kenya, among others

# Annex 2: Measures to support MSMEs* (2)

## Government

- The government approved the establishment of the Credit Guarantee Scheme (CGS) for micro, small, and medium enterprises with an initial seed capital of KES 10 billion (USD 100 million). It plans to release this amount in two tranches of KES 5 billion (USD 50 million) in financial years 2020-21 and 2021-22.
- Financially distressed enterprises could access these funds by mid-October. In the 2020-21 National Budget estimates, the Treasury set aside seed capital worth KES 3 billion (USD 30 million) to operationalize CGS.
- In the 2020-21 budget, the Treasury allocated KES 10 billion (USD 100 million) in addition to KES 23.1 billion (USD 231 million) approved by the Parliament in April, 2020 to clear pending bills.
- The government allocated KES 712 million (USD 7.12 million) in the 2021 budget to provide credit to MSMEs in the manufacturing sector. This is in addition to KES 800 million (USD 8 million) for the development of various MSMEs.
- The Kenya Ports Authority extended the free storage period for import and export containers. The extension was valid for 90 days from 18th May, 2020. The extension is subject to renewal thereafter.

## Regulator and financial service providers

- CBK has asked all the commercial banks and mortgage finance companies to re-submit their board-approved Internal Capacity Adequacy Assessment Process (ICAAP) documents by 31st October, 2020. These documents should provide the following details:
  - The impact of the pandemic and mitigation measures taken by the institution
  - Measures to strengthen the balance sheet and maintain adequate capital and liquidity
  - Any proposed distribution of profit of 2020

## Private sector commitments

- The Kenya Private Sector Alliance has launched a 24-hour call center and an information portal for businesses.
- NIC Bank Kenya signed a Loan Portfolio Guarantee agreement worth KES 516 million (USD 5.16 million) with the African Guarantee Fund for SMEs. This facility will enable AGF to share the risks envisioned by the bank where SMEs are unable to meet collateral threshold requirements.
- The Mastercard Foundation announced its COVID-19 Recovery and Resilience Program to extend relief and build the resilience of micro, small, and medium enterprises (MSMEs) in Kenya. It partnered with Kenya Private Sector Alliance (KEPSA), Women Work Network, Kenya National Chamber of Commerce & Industry (KNCCI), and TechnoServe, with technical support from the Grassroots Business Fund and 4G Capital. The commitment from the Mastercard Foundation to the four lead partner organizations totals USD 15 million.

Note: This is not an exhaustive list of the measures taken to provide relief against COVID-19. The details are based on information available until September, 2020.
Source: The Government of Kenya, Central Bank of Kenya, among others

# Annex 2: Measures to support MSMEs* (3)

## Government

- The government, through The National Treasury, signed the Credit Guarantee Scheme (CGS) agreement with seven participating commercial banks on 8th December, 2020. The National Assembly approved an initial seed capital of KES 3 billion (USD 30 million) under CGS for MSMEs. The government intends to increase the seed capital to KES 10 billion (USD 100 million) in the medium term.
- Participating banks are expected to utilize this amount four-fold to increase the funds available for lending to MSMEs.
- The Kenya Ports Authority extended the free storage period to cushion traders from the adverse effects of the COVID-19 pandemic. The extension of free storage period is valid for 90 days, with effect from 10th December, 2020 at the Mombasa Port and Nairobi Inland Container Depot. For Naivasha ICD, it will run for six months. Further, the authority has granted another day, in addition to the current four, to help domestic importers who were left out during the extension period in May, 2020 clear their cargo without incuring any storage charges.

## Regulator and financial service providers

- Emergency measures of the Central Bank of Kenya to facilitate mobile money transactions expired on 31st December, 2020. It also introduced the following principles to guide pricing, with effect from 1st January, 2021:
  - No charges for person-to-person transfers of up to KES 100 (USD 1) to any customer and network
  - No charges for transfers between mobile money wallets and bank accounts
  - SACCOs regulated by the SACCO Societies Regulatory Authority (SASRA) may levy a charge for transfers between SACCO accounts and mobile money wallets
  - PSPs will propose pricing structures that reflect the "pricing principles" introduced by CBK, which seek to support the development of an efficient, safe, and stable payments and mobile money ecosystem where the customer and public interests are adequately protected
  - The wallet and transaction limits announced on March 16, 2020 will remain in force

## Private sector commitments

- TechnoServe and the Mastercard Foundation announced the launch of the Micro-Enterprises Strengthened for Pandemic Adaptation and Resilience in Kenya (mSPARK). The program seeks to help 28,000 entrepreneurs respond to the COVID-19 pandemic through financial support and technical advice. These entrepreneurs, based in and around Nairobi, Mombasa, and Kilifi, would comprise 70% youth and 60% women. The program would help them keep their micro-enterprises afloat so they can continue to serve their communities.
- The Kenya National Chamber of Commerce and Industry (KNCCI), in partnership with the Mastercard Foundation, has launched the Micro, Small, and Medium Enterprises (MSMEs) COVID-19 Recovery and Resilience Program. The program is expected to benefit 25,000 MSMEs older than a year. The MSME finance facility is envisaged as a short-term interest-free and zero-fee concessional loan. The size of the loan is KES 20,000-30,000 (USD 200-300) and it is repayable in two months. The facility is a revolving fund, available to repeat borrowers upon repayment of the loan within two months.

Note: This is not an exhaustive list of the measures taken to provide relief against COVID-19. The details are based on information available until December, 2020.
Source: The Government of Kenya and Central Bank of Kenya, among others

# Annex 3: Respondents' profile

**Quantitative research: Sample profile of 62 MSMEs**

| | | | |
|---|---|---|---|
| Location of business | 14% Rural | 34% Semi-urban | 51% Urban |
| Gender of ownership | 60% Men | 40% Women | |
| Nature of business | 61% Trading | 31% Service | 8% Agriculture |
| Business category | 70% Essential | 30% Non-essential | |
| Age profile | 23% 18-35 | 77% Above 35 | |

**Qualitative research: Sample profile of 21 MSMEs**

| | | | |
|---|---|---|---|
| Location of business | 6 Rural | 6 Semi-urban | 9 Urban |
| Gender of ownership | 14 Men | 7 Women | |
| Nature of business | 13 Trading | 2 Trading and service | 6 Services |
| Business category | 10 Essential | 11 Others | |
| Age profile | 4 18-35 | 17 Above 35 | |

Note: Please note that the sample size given above is not representative of the overall MSME sector in Kenya.

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**180+** staff in **11** offices around the world

Projects in **65** developing countries

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| | |
|---|---|
| **550+ clients** | **>850 publications** |
| Assisted development of digital G2P services used by **875 million+** people | Implemented **>850 DFS projects** |
| Developed **275+ FI products** and channels now used by **55 million+ people** | **Trained 9,000+** leading FI specialists globally |

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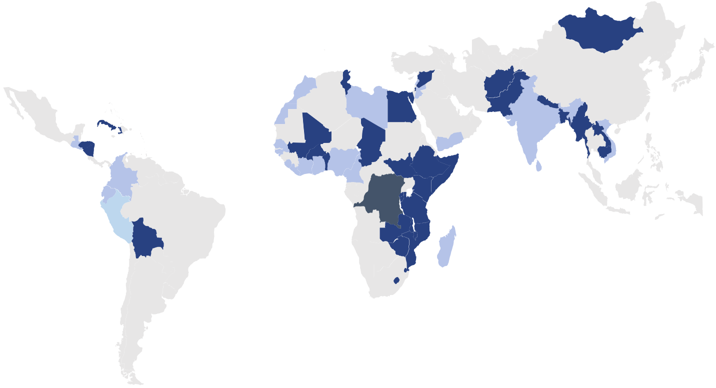
- SCBF co-funds **technical assistance (TA) grants** to develop client-centric **financial products, channels, and services** for low-income clients in developing countries.
- **Target end-clients:** Low-income populations, particularly women, smallholder farmers, micro, small, and medium enterprises (MSMEs), and rural populations
- **Goals:** Build resilience, economic empowerment, and access to essential services


## Outreach

| | | |
|---|---|---|
| **2.1M+** Low-income clients | **91+** Partner financial institutions | **43** Countries |
| **59%** Low-income women | **36+** Technical assistance providers | **55%** Rural clients |

## Eligible countries



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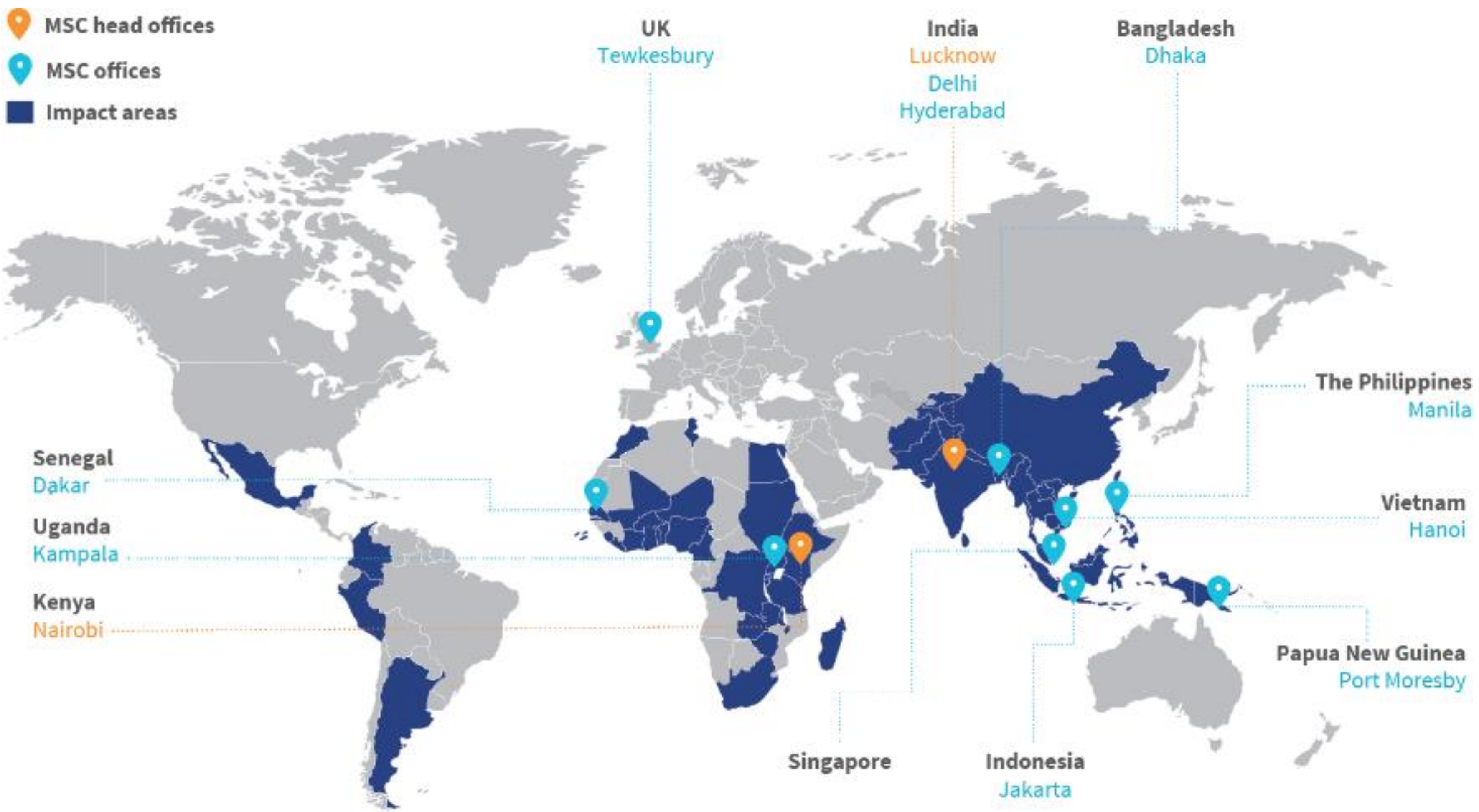


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